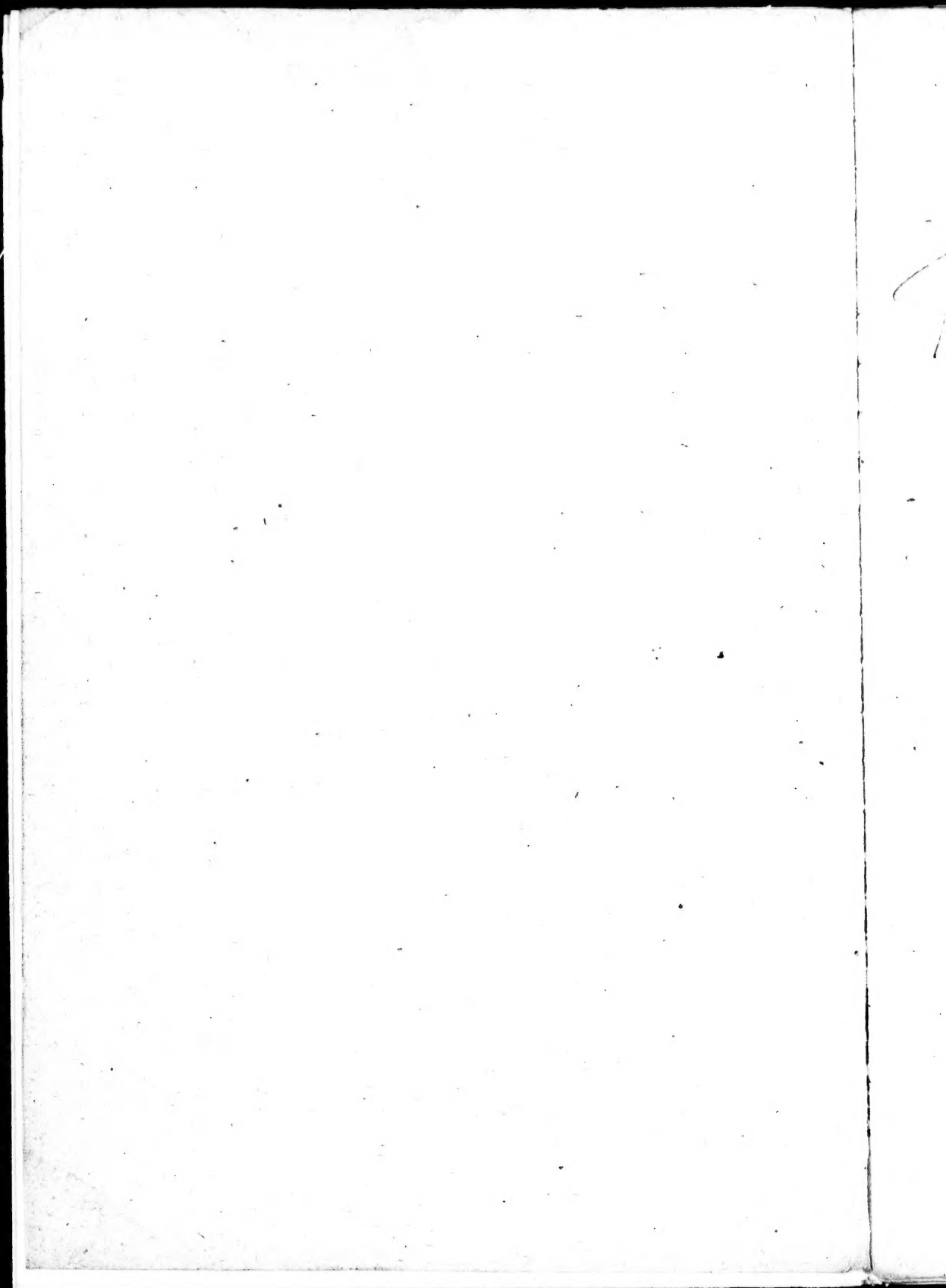




SPEECH

*Presented by Mr. Richardson
from the Committee*
OF

MR. RICHARDSON,

**IN THE HOUSE OF ASSEMBLY, ON THE 13TH APRIL, 1808, PREVIOUS TO MOVING
FOR PRINTING THE BILL FOR ESTABLISHING A**

BANK

IN LOWER-CANADA.

PRINTED AT THE NEW PRINTING-OFFICE,

1808.

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SPEECH

Of Mr. RICHARDSON, in the House of Assembly, on the 1st of April, 1858, previous to moving for printing the Bill for establishing a Bank in Lower Canada :—

MR. SPEAKER,

As the approaching prorogation leaves no prospect of being able to get through the Bank Bill, this session, I have no wish to take up time unnecessarily, by going into a committee of the whole house upon it, as amended by the special committee, to whom it was referred. Before, however, moving to discharge the order of the day, for the purpose of following it up with a motion to print the Bill, that it may be maturely considered, with a view to the resumption of the measure, at the meeting of next Provincial Parliament, I shall endeavor to explain the general principles of Banking, with the application thereof to this country, and give the outlines of the system, contemplated to be introduced here by the Bill before the house. The detail of the clauses thereof will be best understood by a perusal of them when printed.

In the early stages of society, money as such, is unknown, and indeed considered useless, as the wants of mankind being very limited, are supplied by the exchange of one article of necessity for another. This continues through the hunting and pastoral state, and even in the agricultural, until it arrives at such a stage of progression and improvement, as to induce the conversion of raw produce into some kind of manufacture. From manufactures supported by agriculture, spring division of employments and subdivision of labor, with commerce, in all its gradations and varieties, internal and foreign. Barter is a natural, money only an acquired or factitious appendage, to industry. In proportion as the produce of the labor of mankind, exceeds the limits of their immediate wants or enjoyments, the surplus becomes a kind of burthen, instead of an advantage; and from the bulky and, in many cases, perishable nature of that surplus, the convenience of substituting something more portable and less perishable in its nature, to serve as a common standard or measure of value, whereby to represent commodities and to compare one with another, becomes manifest. Hence the origin of money. The question then naturally arises, what that substitute or standard, so to be established, by a kind of common consent, should be?—In establishing it, various considerations would immediately suggest themselves—viz. utility, durability, rarity and portability. Could the

first mentioned property have alone sufficed, there can be no doubt, that iron would have been adopted as the universal standard of value; for in point of intrinsic worth, in so far as applicable to the domestic purposes of mankind, it stands unrivalled; but it wanted the other essential requisites of durability, rarity and portability; indeed the two latter properties may be considered as the same, the one necessarily resulting from the other; without these, it could only remove a part of the inconveniences attendant on barter. Hence gold and silver, being the most pure, durable, and most rare of metals, became the best adapted to the purposes of a general common measure of value, or medium of circulation. These metals when pure are alike in value to the like quantities of them respectively, whatsoever the countries may be where they are found, and they do not consume by length of time.

In proportion as industry advanced, and the fruits of it, through the means of manufactures and commerce, became more conspicuous, in the increased intercourse of mankind; the advantages of a circulating medium, would become more and more apparent; and consequently the idea of artificially multiplying that medium for useful purposes, would naturally arise. Hence the origin of paper money, which is the offspring of increased and increasing industry, confidence and credit. For it, by any contrivance, the person having a commodity to sell or exchange for gold and silver, (which by general consent, was to be considered as the sign of wealth, or means of procuring, hereafter, what the wants or luxuries of mankind might require) could obtain a something to represent the precious metals, in so far as to give a reasonable assurance of his procuring them when wanted; every purpose of their immediate possession was attained: and hence the origin of Banks or associations created for the express purpose of increasing the circulating medium, by furnishing a substitute for gold and silver.

Dr. Adam Smith, who, upon the subject of political economy, has written with an intelligence and profundity of observation, beyond any other person, says, that Bank notes, issued by people of undoubted credit, payable upon demand, in gold and silver, without any condition, and in fact readily so paid, becomes, in every respect, as a circulating medium, equal to gold and silver, since gold and silver can, at any time, be had for them. But far otherwise would it be with paper money, payable only after a certain number of years, or upon

upon a certain condition. He therefore, decidedly expresses his opinion, that if Bank notes are restrained from being issued for less than a certain sum (but that sum he does not fix, as it must depend upon various circumstances) and are made liable to immediate and unconditional payment when presented, that the trade, in them, may with safety to the public, be left, in all other respects, free. Here then is the grand standard or criterion of public safety, in all issues of paper, to which even the capital, invested in such undertakings, is as a security to that public, in a certain degree, only secondary, although important.

Societies or Copartnerships for Banking, are divisible into two distinct heads—those where the whole of the individuals are responsible each for the whole; and those where each individual associated, is bound only to the extent of his subscription or stock.

The former are denominated private Banks, the latter Corporate Banks. Of the latter description, is the Bank contemplated by the bill now before the house, of which I shall have occasion to speak more particularly by and bye. At first view, it will strike the un-informed in such questions, that private Banks are safer for the public, and Corporate Banks safer for the stockholders; but the fact is not so—security to the public and the individual partners are so closely interwoven, that the one cannot materially suffer without affecting deeply the other. Corporate Banks are safer assuredly for the *Stockholder* than private Banks, as the possible loss of *each*, is limited to the amount of his stock; but the public derives a security from a corporation, in this essential particular, that a positive stock is required to be deposited, and *that stock* prohibited from being applied to purposes or speculations foreign to the business of Banking. Private Banks are under no legal obligation to deposit Stock, or to restrain the application of it, if deposited, to the real business of a Bank.—Hence the public are at the mercy of their discretion, in those essential respects. But I may be answered, all this may be theoretically true, but practically fallacious—therefore shew us wherein safety to the public arises, when the Corporate Bank issues paper to an extent beyond the value of its actual funds in specie. To this the answer is ready, but will be more easily comprehended, after a short explanation of the business of Banks, and wherein its profits arise. It will at once be admitted, that if a Bank keeps, locked up in its coffers, a sum in gold and silver, equal in amount to the

notes it issues, there must arise thereto a certain loss of the whole expence of its establishment and contingencies, because the interest lost by the unemployed or unproductive gold and silver, equals the interest received upon the employed or productive notes. The profits of a Bank therefore, necessarily, depend upon an issue of paper or notes, exceeding in value that of the actual funds deposited for their redemption. The question then is reduced to this—What *disproportion* may safely be admitted between such paper, and such gold and silver. This is a question, to which no precise answer can be given, as the disproportion must fluctuate according to a great variety of circumstances; but this may safely be avowed, that the interest of the Bank, from a principle of self preservation, is most decidedly to issue only as much paper or Bank notes, and no more, as will assure them that no greater proportion thereof will come back upon them at one time for payment, than their funds will be able to meet, else their credit and consequent confidence therein are gone for ever, as credit, like the sensitive plant, cannot be touched without shrinking.

Time only can beget confidence in new undertakings, and I am not sanguine in the hope of immediate benefit to the Stockholders, from the contemplated Bank—it may require some years to convince the bulk of the community in this province, that they can safely take bank notes; and until such conviction arises, the business will be a losing one; but that should not deter the proprietors from perseverance even under a lengthy disappointment. It will, from local circumstances require great caution in the Directors at the outset, and probably for some years; but in the end, success must ensue, unless the people of this province be composed of other materials than mankind are in other countries, which none can have the folly seriously to believe.

The quantity of paper or Bank notes which can circulate in any country, must depend upon the quantity of exchangeable commodities therein, and will regulate itself by finding its own level. Circulation is like a sponge, which can imbibe only a certain quantity of water, and when full, any excess must immediately return to the reservoir from whence it was drawn. So it is with paper. The moment the circulation is full, the excess will return upon the Bank, and be exchanged for Specie; and the apprehension of this return, will necessitate them rather to issue too little, than too much paper—indeed the risk is, that for

some

some years, they will not venture to circulate so much paper, as would be convenient for the public, or beneficial to themselves. After these preliminary observations, it is time to point out, wherein the possible profits of a Bank consist, and how the public are secure under the operation of the issues in paper, indispensable to the production of such profits.

In the Bill before the house, the maximum of issues or debts in any shape, that the Bank can own, is restricted to three times the amount of specie in its coffers; and I shall put the argument in the extreme, for the sake of more forcibly illustrating the safety of the public, even should the Bank go to that extent.

Let it always be held in mind, that the Bank never issues notes without value received therefor, in some shape; and consequently *that value* is a security to the extent of the whole notes issued, and over and above that security, the public have the whole stock of the Bank. For example I shall suppose 50,000*l.* in gold and silver deposited in the Bank, when it commences its operation, and that it shall issue thrice that amount or 150,000*l.* in notes. How is that issue effected? Let A. B. and C. represent any number of individuals wishing to obtain Bank notes. They go to the directors in succession as their business renders expedient, and each produces 50,000*l.* in promissory notes, payable, at the utmost, 90 days afterwards, with D. E. and F. &c. as indorsers to each note, of whose solvability as well as that of the Drawers of the notes, the directors are satisfied. The Bank then receives such promissory notes, and pays to A. B. and C. the amount of them in Bank notes, first deducting the 90 days interest, which makes on the 150,000*l.* about 2,250*l.* On receipt of such Bank notes, A. B. and C. go and pay the same away for wheat, flour, pot-ash, cattle, and other articles, whereby the notes get into general circulation. What security then have the Inhabitants, with such notes in their pockets, that they will really receive the value they represent? That security consists, in the first place, of the promissory notes of A. B. and C. indorsed or guaranteed by D. E. and F. &c. to an amount equal to that of the Bank notes in circulation; and further the 50,000*l.* in specie deposited in the coffers of the Bank, with the abovesaid profit, in the shape of interest, of about 2,250*l.* In other words, unless the Bank shall sustain a loss exceeding the whole amount of its stock and neat previous profits, no creditor of the Bank can lose by it one shilling: and therefore it may safely be considered

as certain, that without some unforeseen general calamity, that would destroy all property in whatsoever shape it may be (and consequently not affecting the friends of the Bank more than those of others) the holders of Bank notes could not suffer. The Bank derives its security against bad debts, from the essential principle of discounting paper due at periods so short, that no material difference is likely to arise, in the circumstances of its debtors, before such paper becomes payable; and further to every note discounted, there is required an indorser of good credit.

It will readily occur to every person of common understanding, that the extreme case above assumed for the sake of argument, viz. the discounting of 150,000*l.* in promissory notes, all payable at 90 days thereafter, cannot happen in practice; for as the business of the Bank will be done gradually, and by discounting notes for any number of days to run between 3 and 90, there will always be a succession or revolving wheel of receipts and payments, in such manner that no very heavy sum can fall due at one time.

The utility of Banks, cannot perhaps be better illustrated, than by a reference to Scotland (at the time of introducing the first Bank there, and since) a country poor in comparison of England, of warlike habits, where the feudal tenures (since modified) prevailed in all their rigor, and its industry requiring a stimulus.

In the year 1695 (being the year after the Bank of England was first established) which it will be recollected was many years before the Union, a charter or corporate Bank was established at Edinburgh, called the Bank of Scotland, with a capital of 1,200,000*l.* Scots' money equal to 100,000*l.* Sterling, divided into shares of 1000*l.* Scots or 8*yl.* 6*d.* 8*d.* Sterling each; which let it be observed is little more than two fifths of the stock proposed for the Bank of Canada; or, if government take an interest herein, about one third of its stock. With this trifling resource, they began and prosecuted their operations, without an attempt at increasing their stock, until the year 1774, when upon application to parliament for an extension of their capital, an act was passed to authorise such extension to, in all, 200,000*l.* St. In 1784 another act extended it to 300,000

1792 - - - - 600,000

1794 - - - - 1,000,000

The Royal Bank of Scotland, another Corporate Bank, was first instituted, at Edinburgh,

in 1729, when its capital was 111,000l. St.
In 1738 by act P. was extended to 151,000

1783	-	-	-	300,000
1788	-	-	-	600,000
1793	-	-	-	1,000,000

In 1746 another Charter Bank was instituted at Edinburgh, called the *British Linen Company*, for the purpose of facilitating the linen manufacture, with a capital of 100,000l. St. which has since, I believe, been extended to about half a million, but the precise amount of its present capital I cannot aver. These three Charter Banks have, in all, in the different towns of Scotland, above thirty branches or establishments, where they carry on business. Exclusive of those Charter Banks, there exists, at this moment, in Glasgow, Aberdeen, Perth, Dundee, Leith, Paisley, Greenock &c. about twenty private Banks, all of whom are flourishing, and do business to a great extent. By reference to the above dates they will furnish matter of surprise that, until the close of the American war, the aggregate capital of those Charter Banks did not exceed half a million, sterling; whereas they now are five times that amount, exclusive of all the capital of private Banks. The languid state of improvements, in Scotland, up to that time, must have been extreme, which is accounted for, partly by the occurrence of two rebellions in that period, and the consequent insecurity of property, with other causes operating to repress that patient and persevering spirit of industry, which the natives of that country, are allowed to possess. It is also a most remarkable circumstance, and well deserves consideration, that an event which short sighted politicians had considered as the setting of the sun of Great Britain's glory, I mean the *independence of America*, should have proved the very reverse, for from that moment the nation began to look to the improvement of its great internal resources, and hence the rising of a new sun, which I trust has many ages yet to run before arriving at meridian splendor. The rapidity of improvement, in Great Britain, and especially in Scotland, since the *independence of America*, is unexampled; and so far from a declension of strength and resources being thereby occasioned, the United Kingdom, has now become the Atlas, upon whose shoulders the whole of the world, yet independent, is supported.

This immense power, results from a security to property, superiority in industry, and honorable dealing, with consequent wealth, over other nations; and that industry has been most materially stimulated and aided by the appli-

cation of a paper circulation, truly representing gold and silver, of which the surest proof, is, that in exchanges therefor, it has not depreciated. The Bank of England is the only Charter Bank in that Kingdom, and its capital is immense, perhaps ten million, sterling; but being increased at various times, and by complicated operations, I do not vouch for the perfect accuracy of that sum. Exclusive of that, there are numbers of private Banks and Bankers in England.

It is a most striking confirmation of the strength and solidity of public confidence and credit in England, that, at this moment, although the Bank, by a temporary law, is exempted from the payment of its notes in specie, yet they continue equal in value with gold and silver.

It is also a fact well known, that in Scotland Bank notes are preferred, by the people, to gold and silver, as being more portable, and not subjecting them to loss by deficiency from the standard weight.

In England the business of Banking, is, I believe, chiefly confined to the discount of promissory notes and bills of exchange, and issue of bank notes; but in Scotland, the Banks, exclusive of those operations, are accustomed to grant Bank Credits, or to lend money, to a limited extent, upon personal security with guarantees. Thus if A wishes to obtain a Bank Credit for 1000l, he gets C and D to be his guarantees. He then draws out, at pleasure, such sum or sums as he sees fit, replacing or repaying the same, in any sum or sums, but taking care, that he never owes, at any one time, a balance upon such amount, beyond the 1000l. On the sums drawn out, A pays interest from the day of receipt, at five per cent per annum, and on repayments is allowed four per cent per annum. At the end of the year, the amount is settled and the balance is then invariably required to be paid up, and a new undertaking entered into, if meant to be resumed.—The Scots Banks borrow money (the Bank of England does not) and allow three per cent therefor, if repayable on demand, and four per cent if assured to remain with them for six months or more.

There is no instance, that I recollect, of any Bank in Scotland failing, but the Bank of Ayr; and that from the absurd principle upon which it was established. Instead of lending money upon personal security, payable at short periods, it lent its funds upon land, redeemable at long periods; and the consequence was, that it became utterly impossible for them to pay their

notes

notes on demand, as the lands pledged to them could not be converted into money in time to meet its engagements. In other words, it borrowed at short dates, and lent at long ones.— Its credit once shaken by impunctuality, a run was made upon the Bank, by all its creditors or persons holding its notes; and, although its proprietors, taken in the aggregate, were possessed of immense property, yet the Bank became bankrupt, and involved thousands of its Stockholders, as well as of its debtors, in ruin.— During this convulsion all the other Banks, founded upon rational principles, were going prosperously on, and increasing in wealth. It is, however, a fact worthy of remark, that the country, at large, benefited by the Ayr Bank, although its proprietors and numbers of its debtors, met their ruin; because the monies lent by them on land, being expended on improvements thereon, the land became of increased value, although transferred to other hands, and the face of the country was greatly improved. Thus a kind of paradox seems deducible, that Banks, even when unsuccessful, do good, that is to say, the portion of public benefit generally overbalances the individual misfortune. To this there must, no doubt, as to all general rules, be exceptions; but to argue against any human institution, because of its being incapable of producing good, free from possible evil, is unfair.

Among the objections, I have heard, to a Bank in Canada, none seem deserving of much notice, excepting the following.—That the people are illiterate, and therefore, will be liable to imposition—that it will encourage a gambling spirit of speculation, founded upon false capitals—and, that it will occasion the little specie we have, to disappear.

As to the first objection, namely, the *people being illiterate*, it has some force; but is capable of being surmounted, by devising upon the bank notes, which shall point out to them, on view thereof, the relative value; and forgeries may be guarded against, or, at least, rendered difficult, by additional precautions in the paper whereon, and the plates wherewith the impressions are made. Also, on this head, there is this further security, which our neighbors do not possess, that persons convicted of forging or of knowingly uttering forged notes, will suffer death. But seriously to urge this as an insurmountable objection, is as absurd as it would be, to reject all food, because some of it may, possibly, contain a latent poison.— Besides gold and silver coin may be counterfeited, but it would be very strange, from

thence to argue, that the use of coin ought to be abandoned.

As to speculating or gambling upon false capital. It may do so in a certain degree, but not to such extent as to counterbalance the other benefits, fairly deducible from the introduction of a Bank; and it is to be recollected, that all credit, whether given by a Bank or individuals, is a species of false capital, and may be misapplied, but still credit is as essential to commerce as air is to existence.—Indeed debts due to individuals, from the length of credit usually given, are liable to a greater facility of misapplication, than those due to a Bank; because the latter require strict punctuality in the performance of engagements; and it is one of the advantages attendant on Banking, that the operation of that punctuality, gradually extends itself to all other dealings—at all events, it is false reasoning to argue against the use of any thing, because of its possible abuse.

The 3d objection, in respect to occasioning specie to disappear, has foundation only in appearance, not in fact. As long as the intercourse with our neighbours in the States, leaves a balance of trade against us, a consequent drain of our specie cannot be avoided. And this drain is only to be repaired, by importations of specie by government, or individuals. Whensoever Bills of Exchange arrive at that point of depression, as to be greatly disproportionate to the rate of Exchange in the States, the Venders of Bills here, will send them to the States, and bring back specie; but this they never will do, but from necessity, on account of the risk of conveyance, which in case of loss would fall heavily upon such individuals. Whereas a Bank, from its funds being the property of a great variety of individuals, would feel a greater confidence in risking the conveyance of money, as in case of loss it would fall light upon each proprietor, and also from being under the necessity, of having at all times specie in its vaults, would take early precautions to assure supply; and probably make such arrangements in point of reciprocal intercourse with some Bank in the States, as by an interchange of paper, to avoid at least a part of that constant efflux of specie hitherto experienced.

Upon the whole I conceive, that I run no risk in maintaining this position that such benefits have resulted from the establishment of Banks in the mother country, by stimulating and promoting industry and improvement, as to make it a duty incumbent upon the Legislature of this Province, to give a Bank in
Canada

Canada a fair trial. The leading features of the Bill before the house, which has this salutary object in contemplation, are these.

The stock is not to exceed 250,000l. currency, unless the government of the province see fit to take an interest therein, in which case it may be 50,000l. more. This stock is to consist of shares of 25l. each. There are to be 24 Directors who are to choose out of their number a President and Vice President, whereof half are to be for Quebec and half for Montreal, at which cities the two superior branches of the Bank are to be held, with a power of erecting offices of deposit and discount, in other parts of the Canadas, when found advisable. If government take an interest, they are to appoint two Directors. The Dividends are to be payable half yearly. A deposit of ten per cent. is to be paid down, for each share on subscribing, which will be forfeited if the first instalment thereafter of ten per cent. be not paid in due season. The shares are put at a low rate, that they may be more generally diffused over the province. Foreigners may hold shares, but cannot be Directors. They may however vote at general meetings by

proxy, if the proxy be one of his majesty's subjects.

The votes are endeavoured to be established upon such a scale of proportion as shall exclude an over bearing preponderance in those who shall hold a large interest in the concern, and yet assure to property therein, that influence which it ought to possess in every well regulated institution.

It is proposed that there shall be no other corporate Bank in Canada during the continuance of the contemplated one, but there is a power of revocation thereof, under certain limitations, and formalities, if found to be hurtful in practice. The stock of the Bank may be increased when requisite, and its notes are proposed to be receivable in payment of duties imposed or to be imposed by the Provincial Legislature.

For subordinate points I must again refer to the Bill in detail, and close my remarks, by now moving, that the order of the day for going into a committee of the whole house upon the Bill, be discharged, and, I further move, that 400 copies of the Bill, as amended by the special committee, be printed for the use of the members of the Legislature.

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